

AR12

annual report
march 31, 1973



MIDCON
OIL & GAS

LIMITED



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OIL & GAS LIMITED

OFFICERS AND DIRECTORS

J. DOUGLAS STREIT - - - - -	<i>President</i>
J. F. PAXTON - - - - -	<i>Vice-President</i>
W. E. REARDEN - - - - -	<i>Secretary-Treasurer</i>
GEORGE BROWN - - - - -	<i>Assistant Secretary-Treasurer</i>

H. C. KERR, Q.C. - - - - -	<i>Toronto</i>
J. F. PAXTON - - - - -	<i>Toronto</i>
R. G. PRICE - - - - -	<i>Calgary</i>
W. E. REARDEN - - - - -	<i>Toronto</i>
J. DOUGLAS STREIT - - - - -	<i>Toronto</i>

McCORMACK, PARKER & HESTER - - - - - Toronto, Ontario

CANADIAN IMPERIAL BANK OF COMMERCE - - - - - Toronto, Ontario

GUARANTY TRUST COMPANY OF CANADA - - - - - Toronto and Calgary

727 - 7TH AVENUE SOUTH WEST - - - - - Calgary, Alberta

ROOM 1000, 360 BAY STREET - - - - - Toronto, Ontario

MIDCON OIL & GAS LIMITED

OFFICERS AND DIRECTORS

O F F I C E R S

J. DOUGLAS STREIT - - - - - - - - -	<i>President</i>
J. F. PAXTON - - - - - - - - -	<i>Vice-President</i>
W. E. REARDEN - - - - - - - - -	<i>Secretary-Treasurer</i>
GEORGE BROWN - - - - -	<i>Assistant Secretary-Treasurer</i>

D I R E C T O R S

H. C. KERR, Q.C. - - - - - - - - -	<i>Toronto</i>
J. F. PAXTON - - - - - - - - -	<i>Toronto</i>
R. G. PRICE - - - - - - - - -	<i>Calgary</i>
W. E. REARDEN - - - - - - - - -	<i>Toronto</i>
J. DOUGLAS STREIT - - - - - - - - -	<i>Toronto</i>

A U D I T O R S

McCORMACK, PARKER & HESTER - - - - - Toronto, Ontario

B A N K E R S

CANADIAN IMPERIAL BANK OF COMMERCE - - - - - Toronto, Ontario

T R A N S F E R A G E N T S

GUARANTY TRUST COMPANY OF CANADA - - - - - Toronto and Calgary

H E A D O F F I C E

727 - 7TH AVENUE SOUTH WEST - - - - - Calgary, Alberta

E X E C U T I V E O F F I C E

ROOM 1000, 360 BAY STREET - - - - - Toronto, Ontario

Report of the Directors

To the Shareholders,
MIDCON OIL & GAS LIMITED.

Your Directors are pleased to present their report for the year ended March 31st, 1973, together with detailed Financial Statements and Auditors' Report for the fiscal year.

It is with deep regret that we report the death of Mr. Joseph D. Liard, a Director of Midcon Oil & Gas Limited for several years. His wise counsel and advice will be greatly missed.

FINANCIAL

Gross oil and gas revenue increased approximately \$38,800.00 in 1973 over 1972 figures. Net income nearly doubled from \$70,968.00 in 1972 to \$130,440.00 in 1973.

You will note accounts payable on the Balance Sheet of \$33,185.20. \$31,286.26 of this amount is represented by gas paid for, but not taken, by the Medicine Hat Nitro Chemicals Plant. Last year this amount was \$62,895.46. This decrease in accounts payable represents an increased demand for gas by the Nitro Chemical Plant as the farm fertilizer market improves. We expect this improvement to continue in 1973.

GAS PRODUCTION OPERATIONS

South Eastern Alberta

Midcon and our partner Pembina Pipe Lines Ltd. each own a 50% interest in South Alberta Pipe Lines Ltd. which supplies gas under a long-term escalating price contract to the 25 million dollar Northwest Nitro-Chemicals Ltd. fertilizer manufacturing plant at Medicint Hat and under separate contract directly to the City of Medicine Hat. South Alberta operates a 10½-inch diameter pipeline which takes gas 45 miles from the Etzikom field to the City of Medicine Hat and also operates a 14-mile, 8-inch trunk gas gathering line in the Medicine Hat Gas field. This pipeline system represents a total investment of over 2.2 million dollars.

The total remaining recoverable gas reserve owned by Midcon in the area covered by Map 2 as of March 31, 1973, were estimates as follows:

<u>Field</u>	<u>Midcon Share of Reserves</u>
Etzikom	3.871 B.C.F.
7 Persons Creek Unit	55.365 B.C.F.
Crowfoot Area	4.397 B.C.F.
Total Owned Reserves	<u><u>63.633 B.C.F.</u></u>

In addition, Midcon has under contract a further 4.458 B.C.F. of gas reserves in this area from which we have been producing and re-selling natural gas.

For the year ended March 31, 1973, the Midcon share of natural gas sales to Northwest Nitro-Chemical (at 17¢/M.C.F.) and to the City of Medicine Hat (at 11.5¢/M.C.F.) amounted to 1,926,286 M.C.F. or an average of 5,277,496 cubic feet per day at an average price of 14.756¢/M.C.F. This is low pressure gas which would cost about 1.5¢ per M.C.F. to boost to the 900 pound export pipeline pressure so the average price of our gas sales for the year was equivalent to 16.256¢/M.C.F. which was slightly above the 1972 provincial gas price average of about 16¢/M.C.F. The net production revenue to Midcon from gas producing operations in south eastern Alberta after deducting all royalties, production, processing and transportation costs amount to about \$193,000.00 or just over 10¢/M.C.F. of gas production for the past fiscal year.

Alberta gas prices at wellhead average 16¢/M.C.F. in 1972 but the Alberta Government has indicated it considers this price much too low. Prices paid for gas being exported from Alberta under long-term contracts have recently been voluntarily re-negotiated to sharply higher levels by both Trans-Canada Pipelines Ltd. and the Alberta and Southern Gas Company Limited, for example, Trans-Canada will increase the price paid to Inter-Rock for its Nevis gas from the present 16.5¢ to 26.0¢/M.C.F. on November 1, 1973, with a further price re-negotiation to take place November 1, 1974. Shell Oil recently signed an Agreement with Alberta and Southern to increase the price of all its gas sales to 29½¢/M.C.F. effective April 1, 1973.

Our gas sales contracts with the City of Medicine Hat and with Northwest Nitro-Chemicals Ltd. have no provision for price re-negotiation but we feel it is reasonable to expect all Alberta gas field prices to increase to at least 26¢/M.C.F. within the next year. In addition Midcon has sufficient reserves to deliver gas at a rate of over 3 billion cubic feet per year for a 20-year period which is over 50% above the rate of 1.926 billion cubic feet delivered during the past fiscal year.

There is therefore, the possibility that increased rates of gas production and increased natural gas field prices (even after the anticipated substantially increased crown gas royalties) could more than double net gas production revenue from South Eastern Alberta during the next year or two. Midcon management is taking all possible steps to try to obtain increased prices and increased sales for its gas reserves.

EXPLORATION

Arctic Islands

Map #1 shows the Arctic Island permit blocks in which Midcon and its subsidiary Inter-Rock Oil Co. of Canada Limited hold a 50% working interest.

Midcon and Inter-Rock have taken a 1.875% interest in a farmout of 159,579 gross acres of permit at Middle Fiord on the west side of Axel Heiberg Island. The farmee group which also includes Panarctic Oils Ltd., Canadian Reserve Oil and Gas, Sun Oil, Cities Service, Getty Oil, West Coast Petroleum, Yellowknife Bear Mines, Kenting Limited, Canada Geothermal, and Canadian Reserve Oil and Gas will earn a 50% interest in the permits by drilling a wildcat well to about 7,000 feet. We expect the spud date of this well will be the second week in October. The well is being drilled in search of a structural trap in the Heiberg formation indicated by geological and seismic studies. This well is of particular interest because the structure on which it is being drilled runs north and south and appears to extend to the 23,125-acre permit in which Inter-Rock holds a 50% interest which is located immediately south

MIDCON OIL & GAS LIMITED

of the farmout permit block on which the Middle Fiord well will be drilled. According to a study by J. C. Sproule and Associates, the Middle Fiord prospect has potential gross reserves of 720,000,000 bbls. of oil and 1.143 trillion cubic feet of gas, so it does have the elephant sized potential required to make ventures in this cold remote difficult area of the world economic.

All the Midcon and Inter-Rock permits are carried to August 1974 by a farmout to Sun Oil at no cost to our companies and additional credits will be generated through participation in the Middle Fiord well to carry out permits beyond that date. In the meantime, our permits continue to receive drilling exposure through wells drilled by other operators in the Arctic Island, as can be seen by reference to Map #1.

Great Bear Lake

Midcon and Inter-Rock hold 319,411 acres of permit land on the Smith Arm of Great Bear Lake. We have conducted a marine seismic program to help evaluate these permits and we are currently attempting to farm out this block.

INTER-ROCK OIL CO. OF CANADA LIMITED

Midcon owns over 50% of the common stock of Inter-Rock and the enclosed financial statements are a consolidation of both companies. The northern holdings of Inter-Rock have been detailed previously in this report.

Inter-Rock owns a 0.28363% interest in the Nevis Gas Field. Inter-Rock has recently re-negotiated its gas sales contract with Trans-Canada Pipelines and effective November 1, 1973, the sales price of Inter-Rock Nevis Gas will increase from the present 16.50¢/M.C.F. to 26.0¢/M.C.F.. The new contract also provides for price re-negotiation November 1, 1974, and at two-year intervals thereafter. The Nevis operators committee, Nevis gas processing plant in which Inter-Rock owns a 0.3528% interest is now installing deep cut facilities to remove butane and propane from the Nevis gas. This facility will go into operation in September 1973 and the sale of this butane and propane will further increase Inter-Rock production revenue.

Inter-Rock also owns a 2.08333% interest in the Buffalo Lake Oilfield which is operated by the Hunt Oil Company and a 12½% interest in seven D-3 oil wells operated by Gulf Oil Canada Limited in the Erskine oilfield. The Inter-Rock oil production has had the benefit of total crude oil price increases of 55¢/bbl. from November 1972 to the present and although little of this increase was effective during the past fiscal year, the 1973-74 year will show a significant increase in Inter-Rock oil production revenue.

On Behalf of the Board of Directors,

Toronto, Ontario,
June 15, 1973.

**J. DOUGLAS STREIT,
President.**

Consolidated Balance Sheet

(With comparative figures)

ASSETS

	1973	1972
CURRENT ASSETS		
Bank Balances (including interest bearing deposits 1973 — \$93,324.65; 1972 — \$197,613.08)	\$ 114,197.05	\$ 208,584.23
Accounts Receivable	38,959.62	40,570.52
Marketable Securities at cost (Market Value 1973 — \$280,800.00; 1972 — \$114,955.00)	274,583.15	105,969.00
Accrued Interest Receivable	12,489.97	12,918.59
Prepaid Expenses	316.44	1,218.75
	<hr/> 440,546.23	<hr/> 369,261.09
INVESTMENTS		
South Alberta Pipe Lines Limited — Shares and Debentures at cost (Note 1)	525,500.00	545,750.00
Northwest Nitro-Chemicals Limited — Shares and Debentures at cost (Note 3)	14,469.53	14,469.53
Other Shares at cost less amount written off	6,010.75	6,010.75
	<hr/> 545,980.28	<hr/> 566,230.28
PROPERTY, PLANT AND EQUIPMENT AT COST (Note 2)		
Interest in Petroleum and Natural Gas Leases and Rights (Note 4) Producing Well Costs and Production Equipment	1,113,001.10	1,119,825.10
Capped Gas Well	727,918.25	623,979.95
Furniture, Equipment and Automobile	5,789.82	5,789.82
Leasehold Improvements	10,977.18	9,948.93
	5,753.09	5,753.09
Accumulated Depreciation, Depletion and Amortization	<hr/> 1,863,439.44	<hr/> 1,765,296.89
	434,540.25	395,847.43
	<hr/> 1,428,899.19	<hr/> 1,369,449.46
OTHER		
Deposits re performance of work (Note 5)	90,247.28	94,785.20
	<hr/> \$2,505,672.98	<hr/> \$2,399,726.03

AUDITOR

To the Shareholders,
MIDCON OIL & GAS LIMITED.

We have examined the consolidated balance sheet of Midcon Oil & Gas Limited as at March 31, 1973, and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial posi-

MIDCON OIL & GAS LIMITED
(Incorporated under the Laws of the Province of Alberta)

as at March 31, 1973

(as at March 31, 1972)

LIABILITIES

CURRENT LIABILITIES	1973	1972
Accounts Payable and Accrued Charges	\$ 33,185.20	\$ 65,897.46
MINORITY INTEREST	109,495.23	101,276.90

SHAREHOLDERS' EQUITY

CAPITAL STOCK

AUTHORIZED

5,000,000 Common Shares No Par Value

ISSUED FULLY PAID

4,300,000 Shares	3,353,505.43	3,353,505.43
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DEFICIT—Per Schedule

990,512.88	1,120,953.76
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2,362,992.55	2,232,551.67
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Approved on behalf of the Board:

J. DOUGLAS STREIT, Director

W. E. REARDEN, Director

(See the accompanying Notes to the Financial Statements)

\$2,505,672.98	\$2,399,726.03
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REPORT

of the companies as at March 31, 1973, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
June 15, 1973.

McCORMACK, PARKER AND HESTER,
Chartered Accountants.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT MARCH 31, 1973**

Note 1: Consolidation Policy

The consolidated financial statements include the results of operations for the 1973 year and the financial position as at March 31, 1973, of Midcon Oil & Gas Limited and Inter-Rock Oil Co. of Canada Limited. As at March 31, 1973, the Company's interest in Inter-Rock was 52.09% of the voting stock of that Company.

Advances to the Company's inactive wholly-owned subsidiary, Aqua Land Exploration Limited, have been written off. The investment in this subsidiary was written off in 1966, since the Company has been inactive for a number of years and the remaining assets are considered to be of no value.

Midcon Oil & Gas Limited owns 50% of the issued and outstanding common shares of South Alberta Pipe Lines Limited which owns and operates a gas pipeline in the Medicine Hat area of Alberta. The Company also owns 50% of the issued and outstanding 5% First Mortgage Redeemable Sinking Fund Bonds of that Company of which \$22,500.00 were redeemed in August, 1972. Repayment of the balance of the principal of these bonds, which was due on May 1, 1966, has been postponed with the consent of the bondholders, Pembina Pipe Lines Limited and Midcon Oil & Gas Limited. At March 31, 1973, the Company's share of the accumulated deficits of South Alberta Pipe Lines Limited based on the audited financial statements of the Company amounted to \$152,108.50 and its share of the loss for the year ended March 31, 1973, amounted to \$1,767.00. It is the policy of the Company not to take this share of the deficit, which exceeds its investment in the common shares of South Alberta Pipe Lines Limited by \$72,108.50, into account in the books.

Note 2: Accounting Policies

The Company follows the practice of charging exploration expenses, non-productive development expenses and the carrying charges on its properties to income as such costs are incurred. Property acquisition costs are capitalized. The costs of drilling productive wells are capitalized and the costs of drilling unproductive wells are charged to income when the wells are determined to be dry. Depletion and amortization of producing oil and gas lands and wells costs and production equipment is determined on the unit of production method. Depreciation of other plant and equipment is based on the estimated service lives of the assets calculated on the diminishing balance method.

Note 3:

The Company owns \$30,000.00 par value subordinated income debentures and 21,500 common shares of Northwest Nitro-Chemicals Limited, which Company is controlled by Com-

mercial Solvents Corporation. The investment is carried at cost which is not intended to reflect present or future values. The securities are not listed on a stock exchange and the market is therefore restricted to quotations in respect to unlisted securities which are not considered to be representative of market values.

Note 4:

Certain oil and gas exploratory permits carried at \$1,750.00 and the related deposits re performance of work amounting to \$47,911.55 expire July 9, 1973. No applications for the renewal of these permits have as yet been made.

Note 5:

The Companies have made deposits of \$67,140.75 with the Government of Canada to guaranty the performance of work in connection with exploratory permits for gas and oil. The Companies also have drilling deposits of \$3,505.00 with the Province of Alberta. In addition the Companies have advanced the sum of \$19,601.53 as their share of proposed expenditures in a drilling programme.

Note 6:

No provision for income taxes is required for the year ended March 31, 1973, and at that date an excess of drilling and exploration expenditures was available to be applied against future profits.

Note 7:

The aggregate direct remuneration paid to the directors and the senior officers of the Company and its subsidiary in the year ended March 31, 1973, was \$9,500.00.

MIDCON OIL & GAS LIMITED

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

FOR THE YEAR ENDED MARCH 31, 1973

(With comparative figures for the year 1972)

	1973	1972
Gross Oil and Gas Revenue	\$ 344,206.07	\$ 305,600.47
Deduct Royalties	26,850.18	20,065.13
	<hr/>	<hr/>
Well Supervision	\$ 317,355.89	\$ 285,535.34
	6,300.00	7,800.00
	<hr/>	<hr/>
	323,655.89	293,335.34
Deductions		
Production, Processing and Transportation costs	119,051.36	124,146.04
Dry Hole Costs		2,500.00
Plugging and Abandonment of Lake Erie wells		223.74
Exploration Expenses	10,257.18	50,003.90
General and Administrative Expenses	50,070.83	47,372.75
	<hr/>	<hr/>
	179,379.37	224,246.43
Operating Profit	<hr/>	<hr/>
	144,276.52	69,088.91
Other Income		
Interest Earned	34,766.06	37,216.44
Dividends Received	3,416.00	1,537.14
Profit on Sale of Interests in Leases	1,500.00	
Profit on Sale of Fixed Assets	1,316.08	
Profit on Redemption of Investments	2,250.00	
	<hr/>	<hr/>
	43,248.14	38,753.58
	<hr/>	<hr/>
	187,524.66	107,842.49
Other Deductions		
Depreciation, Depletion and Amortization	48,858.70	38,414.66
Advances to Wholly-Owned Subsidiary Written Off	6.75	50.00
Income (Loss) Applicable to Minority Interests	8,218.33	(1,590.81)
	<hr/>	<hr/>
	57,083.78	36,873.85
Net Income	<hr/>	<hr/>
	130,440.88	70,968.64
Deficit, beginning of the year	<hr/>	<hr/>
	1,120,953.76	1,191,922.40
Deficit, end of the Year	<hr/>	<hr/>
	\$ 990,512.88	\$ 1,120,953.76

(See the accompanying Notes to the Financial Statements)

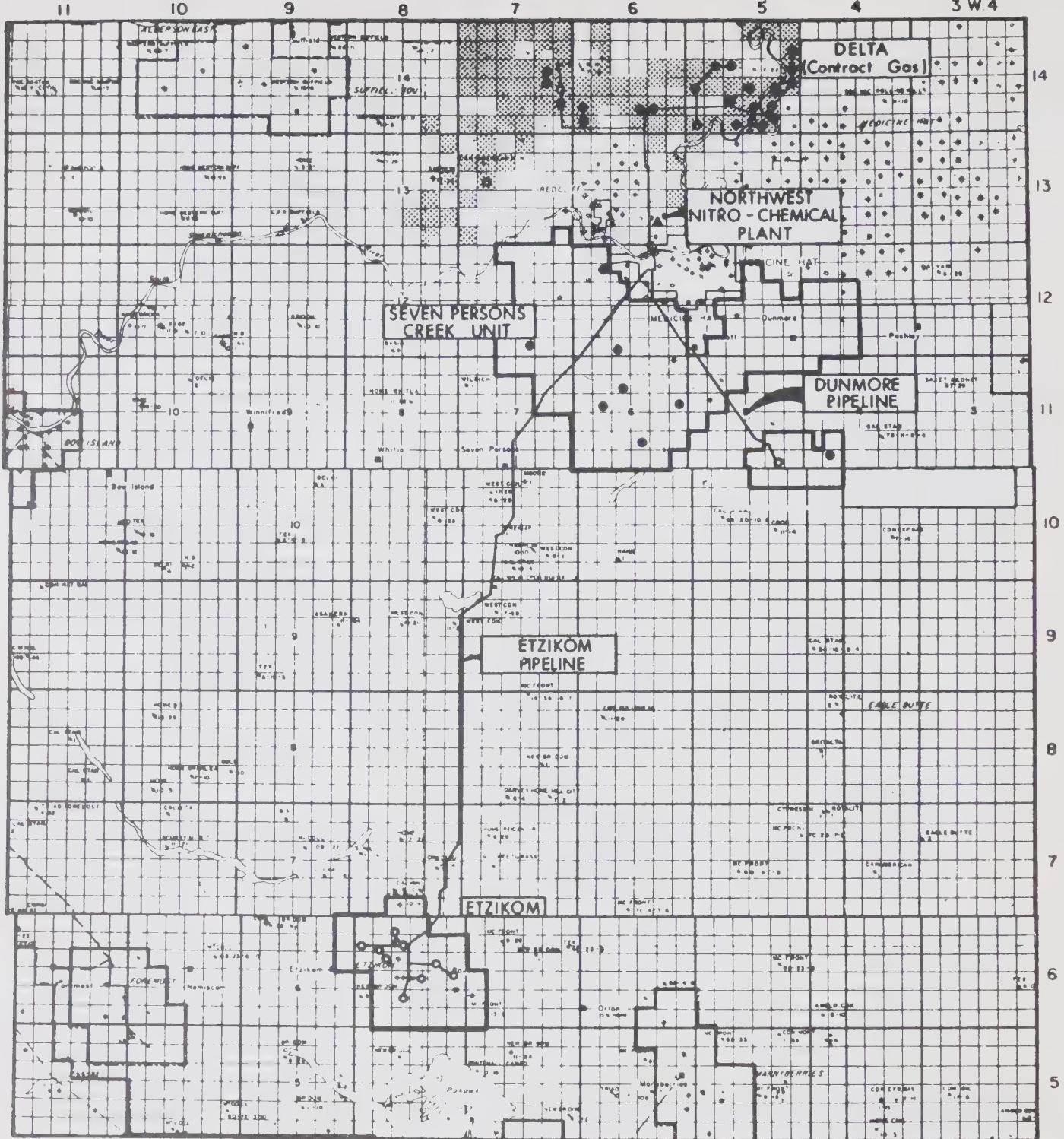
MIDCON OIL & GAS LIMITED

**CONSOLIDATED STATEMENT OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED MARCH 31, 1973**
(With comparative figures for the year 1972)

	1973	1972
Head Office Services and Rent	\$12,767.69	\$11,923.39
Salaries and Wages	5,250.00	11,400.00
Canada Pension Plan	96.30	136.80
Unemployment Insurance	23.97	12.87
Directors' Fees	3,500.00	2,100.00
Secretarial Fees and Services	11,085.40	4,662.00
Telephone and Telegraph	1,107.87	843.14
Travelling Expense		1,136.52
Legal and Audit Fees	4,820.00	3,900.00
Reports to Shareholders	3,813.06	4,299.74
Transfer Agents' Fees and Expenses	5,361.75	4,047.39
Miscellaneous	2,225.09	2,907.40
Bank Charges	19.70	3.50
	<u>\$50,070.83</u>	<u>\$47,372.75</u>

**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED MARCH 31, 1973**
(With comparative figures for the year 1972)

Source of Funds	1973	1972
Operations		
Net Income for the Year	\$130,440.88	\$ 70,968.64
Items not involving a current outlay of funds—		
Depreciation, Depletion and Amortization	48,858.70	38,414.66
Interest in Petroleum and Natural Gas Leases and Rights Written Off	500.00	
	<u>179,799.58</u>	<u>109,383.30</u>
Sale of Fixed Assets less Profit on Sale included in Statement of Income	2,005.72	
Redemption of Investments less Profit on Redemption included in Statement of Income	20,250.00	
Profit (Loss) of Subsidiary applicable to Minority Interest	8,218.33	(1,590.81)
	<u>210,273.63</u>	<u>107,792.49</u>
Application of Funds		
Purchase of Interests in Petroleum and Natural Gas Leases and Rights		595.92
Purchase of Interest in Gas Gathering and Processing Facilities	11,813.30	
Well Development and Equipment Expenditures	92,125.00	52,652.80
Purchase of Other Capital Assets	6,875.85	
Increase in Other Investments		9.75
Increase in Deposits	(4,537.92)	14,421.90
	<u>106,276.23</u>	<u>67,680.37</u>
Increase in Working Capital		
Working Capital, beginning of the year	103,997.40	40,112.12
Working Capital, end of the year	<u>\$407,361.03</u>	<u>\$303,363.63</u>



MIDCON HOLDINGS

OWNED INTERESTS

ETZIKOM PIPELINE	50%
DUNMORE PIPELINE	50%
ETZIKOM GAS FIELD	40%
SEVEN PERSONS CREEK UNIT ..	42.48%

CONTRACT INTEREST

DELTA GAS CONTRACT	50%
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MAP 2

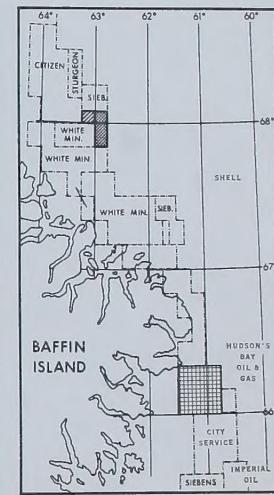
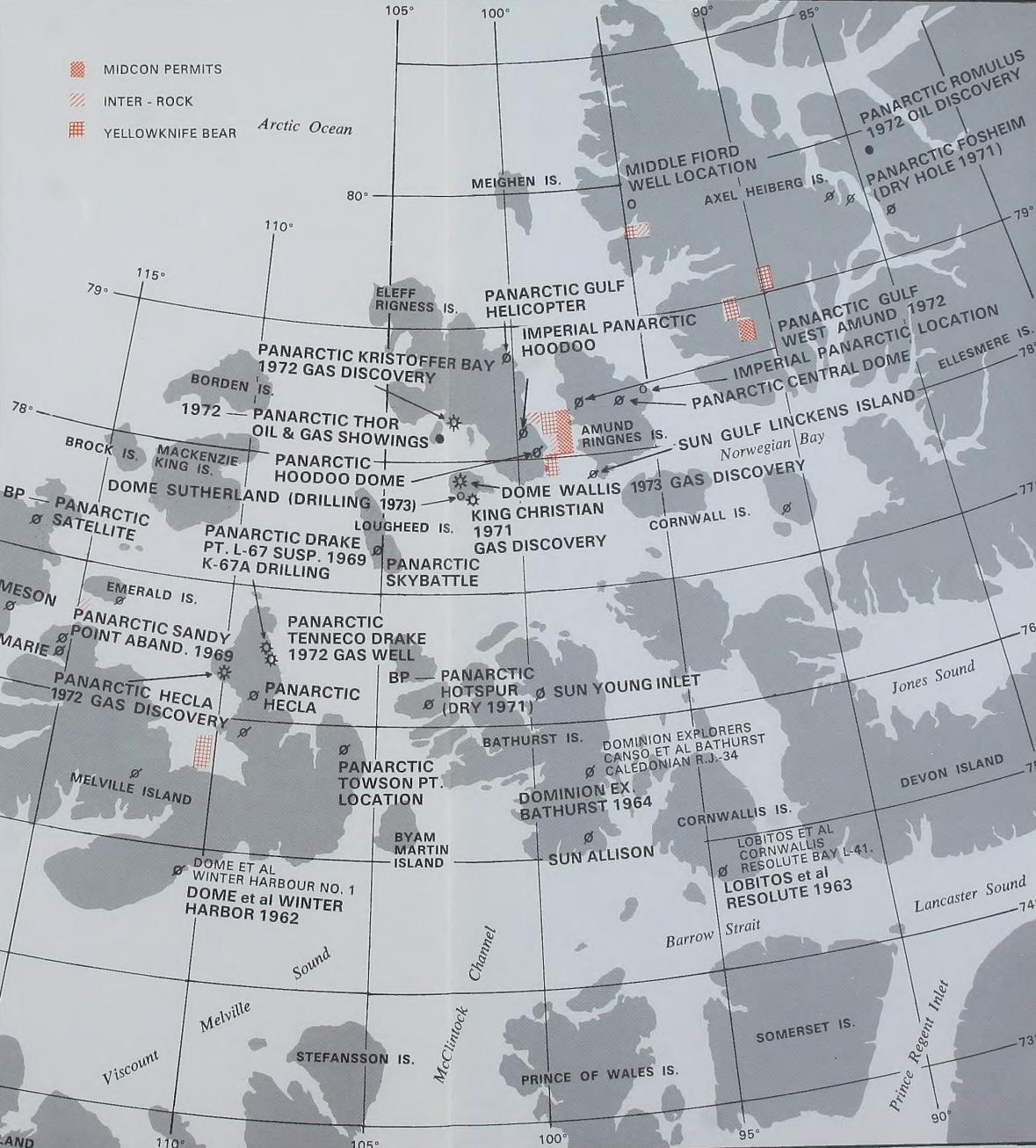
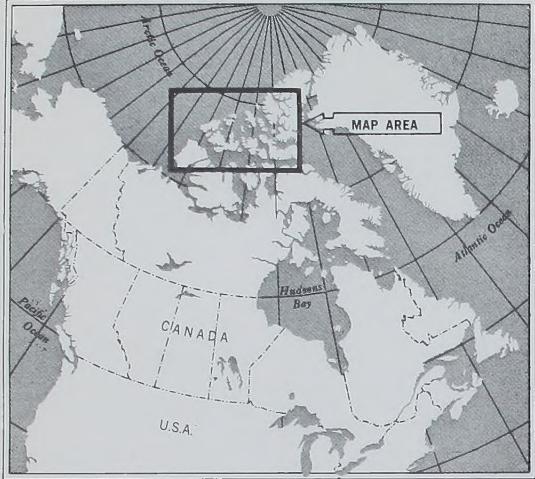
MIDCON OIL & GAS LIMITED

HOLDINGS IN

ETZIKOM - MEDICINE HAT AREA



*See inside this fold for map
of gas and oil locations.*



MAP 1

